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Locke, Edward A.

Letter to the Commissioner of Internal...

Washington

1876

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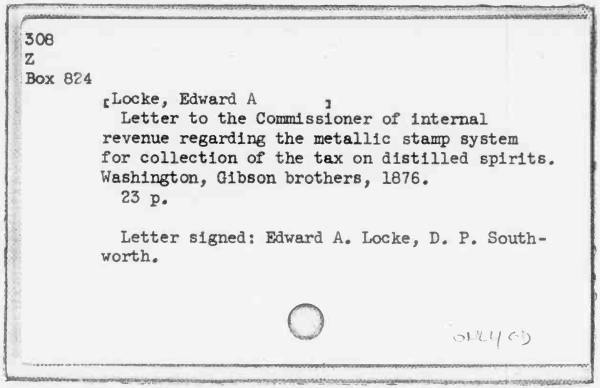

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[Locke, Edward A]
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Letter signed: Edward A. Locke, D. P. Southworth.

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LETTER

TO THE

COMMISSIONER OF INTERNAL REVENUE

REGARDING THE

Metallic Stamp System

FOR

COLLECTION OF THE TAX ON DISTILLED SPIRITS.

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Box 824

WASHINGTON, D. C.:
GIBSON BROTHERS, PRINTERS.
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TO THE

COMMISSIONER OF INTERNAL REVENUE

REGARDING THE

Metallic Stamp System for Collection of the Tax on Distilled Spirits.

WASHINGTON, D. C., *December* 7, 1876.

HON. GREEN B. RAUM,
Commissioner of Internal Revenue:

SIR: At the request of the Commission appointed by you to examine into the merits of the metallic stamp system for the collection of the internal revenue tax upon distilled spirits, we respectfully submit, for the consideration of yourself and the Commission, the following statement, in addition to the oral explanations already made, illustrating the operation of the stamp system, and demonstrating its superiority over that now in use.

In submitting this argument, it is proper that primarily we should refer to the various internal revenue laws, and the provisions amendatory thereof, which have been enacted from time to time in the attempt to perfect a system insuring the entire collection of the tax upon distilled spirits, and at the same time to advert to the steps taken by us in presenting the merits of the metallic stamp system to the attention of Congress as well as the successive Commissioners of Internal Revenue, after first pointing out the methods by which frauds were committed, and demonstrating the necessity for more thorough measures for the collection of that tax.

The law of 1862, with the successive enactments prior to 1868, failed to establish any efficient check upon illicit traffic in spirits, and led to the passage of the act of July 20, 1868, by which the previous mode of collecting the tax thereon was entirely revolutionized, provisions for the ascertainment of the capacities of distilleries being made part of the law, and prepayment of the tax, (excepting the barrel tax and assessments for deficiencies,) required with the use of a paper stamp denoting such payment.

During the time the law was thus inherently defective, Mr. E. A. Locke, then engaged in furnishing to the Government the metallic tags denoting the payment of the tax upon raw cotton, had his attention turned to the necessity for some such device to represent the payment of the tax upon spirits. He accordingly invented a metallic

stamp for the purpose, producing the same on 27th June, 1866, and presenting it to the attention of the office of Internal Revenue as well as to the members of the Ways and Means Committee of the House of Representatives. No action, however, was taken on the subject of a radical change in the method of collecting the tax until 1868, when we learned that the Ways and Means Committee, being aroused to the necessity of such change, had under consideration a proposition to collect the tax by the use of stamps. We accordingly hastened to appear before that committee, and explained the system and set forth the merits of the stamp we offered. The committee admitted that it possessed great merit and was superior to the proposed system involving the use of a paper stamp, but a bill looking to the use of that kind of stamp had been already prepared, to alter or throw aside which, and attempt to legislate directly to the use of the metallic stamp system, would involve such delay as might endanger the passage of the Internal Revenue bill, owing to the near approach of the day fixed for adjournment. It was therefore not deemed judicious to attempt it. A section was, however, inserted in the bill, (section 101,) giving to the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, the power to change the stamps when he might judge necessary; but prior to the passage of the act a proviso was added to the section which practically prevented the use of any but a paper stamp.

Soon after the stamp system, provided by the law of 1868, went into operation the Commissioner of Internal Revenue designated Deputy Commissioner Given, with Messrs. Chesley, Cushing, Arnold, and Kanouse, as a Commission to "inquire into the defects of the spirit "and beer stamps, and to examine and report on the devices offered "as substitutes." We appeared before that Commission, and, after enumerating the various defects of the paper stamp system, said, in a printed pamphlet submitted to the Commissioner and the Commission, the following regarding our stamp system:

"It being adopted, the simple regulations governing its use would be as follows, viz: When packages of spirits with Locke stamps are emptied of contents the holder must immediately detach the brass discs, and transmit them to the assessor or assistant assessor of the district or division in which the spirits are at the time, together with a written report in duplicate, showing the number of proof-gallons in each package, the serial numbers of the stamps attached thereto, and the district in which the stamps were issued. On receipt of the brass discs and duplicate reports the assessor or assistant assessor will sign and return one of the reports to the dealer, which will be authority to the gauger to affix wholesale dealers' or rectifiers' stamps, as the case may be, to packages containing to the extent of the whole number of gallons of spirits so reported whenever the dealer or rectifier shall require, and shall immediately make two copies of the report, one of which, together with the discs, he shall transmit to the Commissioner of Internal Revenue, the other to the collector of the district. On receipt of report the collector will copy the same in a book kept for that purpose, issue a permit to the gauger to stamp for the dealer or rectifier the number of gallons of spirits so reported, and enter, in brief, a copy of said permit on the stub of the first stamp issued under it.

"With these regulations in force no collector will permit the use of stamps for rectifiers or dealers *in the absence of report of the delivery of the brass discs*, as the stubs, on return to the office of Internal Revenue, will immediately detect any fraudulent issue of stamps.

"The fact being known that to the Commissioner of Internal Revenue every day a return is made of all the brass discs which are detached from barrels emptied of their contents is sure to prevent all attempts to evade the law, *since no counterfeiter of "greenbacks" will seek to place his fraudulent and forged notes in the hands of a Government official, as that would be to insure his speedy detection and punishment.*

"THE BRASS DISC, THEREFORE, BECOMES THE EVER-PRESENT SAFEGUARD OF HONEST GOODS, AND BY ITS ABSENCE PROVES THE SURE DETECTIVE OF THE FRAUDULENT."

At that time we presented for consideration three forms of stamps; one wholly of brass, one a combination of paper with a brass slip attached, *and one wholly of paper with a removable centre*, and the above remarks refer to the one composed of paper and brass. The combination paper and brass stamp, and that of paper with a removable centre, were submitted in order to overcome the objection made that under the law of July 20, 1868, the Commissioner was restricted to the use of a paper stamp.

On the 2d of September, 1869, after months of careful examination, the Commission made a unanimous report, in which they said, after devoting considerable space to a discussion of the defects of the paper stamp:

"Of the other devices, very few presented such claims to attention as to require any special notice. The one which seemed to come nearest to providing a remedy for the defects of the present stamps is the device of Mr. E. A. Locke, of Boston, who had already commended himself to the favorable consideration of the Government by his cotton stamp." * * *

"The Commission heard full statements from the persons interested in this stamp, *and are favorably impressed with the idea which it embodies*, but which, in their opinion, is not so carried out into practice as to largely remedy the defects of our present stamps. * * * In view of these facts, the Commission do not recommend its adoption, believing that something more satisfactory should be furnished before making a change which must necessarily occasion some embarassment to the Government."

A copy of this report was transmitted to Mr. Locke, at Boston, by Commissioner Delano, with the following remark:

"I understand that the Committee of Ways and Means are about to assemble in your city, and I send you this that you may lay it before that committee if you desire, inasmuch as the subject has heretofore claimed their attention."

We were well aware before presenting the combination stamp to the Commission that, although it possessed great advantages over the paper stamp, it was not perfect, and that the *system* could not be followed out to a perfect conclusion by its use. We knew, however, that its adoption would be a step in the right direction, which would eventually lead to the perfection of the system, and the use of the entirely metallic stamp, with which, and only with which, full collection of the tax could be had.

As before said, it was an attempt to obviate some of the disadvantages of the paper stamp, to the use of which the Bureau appeared to be restricted by law.

Upon receipt of the Commissioner's communication we waited upon the sub-committee of the Ways and Means Committee, to whom we explained the metallic stamp system. After a careful and interested examination, they addressed the following letter to the Commissioner:

"SUB-COMMITTEE OF WAYS AND MEANS, ST. JAMES HOTEL, BOSTON, MASS.,
"*October* 29, 1869.

"SIR: The undersigned, a sub-committee of the Committee of Ways and Means, have had submitted to us a system for stamps on packages of distilled spirits, which you suggested to Mr. Locke in your letter accompanying the report on that subject to exhibit and explain to the committee.

"We understand from him that it is not precisely the same as submitted to the Commission appointed by you to examine and report on the different schemes presented to

them, but Mr. Locke claims that in the one shown to us he has met the objections of the Commission.

"In the course of our investigations we have examined several revenue officers, detectives, and others, who have satisfied us that the present system fails to meet the object for which it was intended. Mr. Locke's plan seems to be a great improvement on anything which has hitherto come to our knowledge, and we do not see why it would not accomplish all that is claimed for it.

"We therefore recommend that you invite Mr. Locke to Washington, and have a careful and full examination made there, with a view of adopting his plan, if it should appear as satisfactory to you as it does to us.

"Yours with great respect,

"SAM'L HOOPER, *Chairman.*
"WM. B. ALLISON,
"WM. D. KELLEY.

"Hon. COLUMBUS DELANO,
"*Commissioner of Internal Revenue.*"

Upon receipt of this letter, the Commission was reconvened, and after examination, made report, declining to recommend the adoption of the metallic stamp system, in view of the fact that, in their opinion, an entire change of the law would be necessary in order to put it into operation. In this report Commissioner Delano again concurred, and the matter thus rested.

The 12th section of the act of June 6, 1872, contained a clause giving power to the Commissioner of Internal Revenue to change stamps in his discretion, and all provisions of law inconsistent therewith were repealed. Immediately thereafter we called the attention of the then Commissioner of Internal Revenue, Mr. Douglass, to the metallic stamp system, and the matter was referred to a commission consisting of Deputy-Commissioner Rogers, Mr. Bates, Chief of Warehousing Division, and Mr. Harley, of the Bureau of Engraving and Printing.

Upon appearing before these gentlemen, we submitted for their consideration the following statement.

"Prepayment, by the use of stamps, possesses, to the extent to which it is required, a very great advantage over the former loose method of collecting the internal revenue tax on distilled spirits, yet in the extremely important service of securing the taxes lost by fraudulent and illicit traffic, the paper stamp has effected nothing.

"The requirement of law by which duly registered distilleries are made to return not less than eighty per centum of surveyed capacity, has secured to the Treasury the increased revenue from spirits.

"Failure to secure proper results under this requirement is due to—

"1. Improper survey and registration.

"2. Extending credit on assessments for barrel tax, and deficiency of reported production.

"3. Facilities afforded for obtaining rectifiers' and and wholesale liquor-dealers' stamps, whereby the confederate rectifying and compounding establishments have aided distillers in disposing of their fraudulent production.

"This latter cause has by far been productive of the most serious mischief. Collectors cannot do otherwise than furnish rectifiers' stamps for spirits which no official would seize or detain, although fraudulently produced in some undetected manner, for the reason that the cover to the fraud is so perfectly simulated to regular transactions in every essential requirement of identifying marks, book-entries, and reports, that no traces of irregularity appear.

"But, whilst fraudulent spirits have reached the market from registered distilleries in unstamped packages, or by the repeated use of one and the same stamped package, and, with the aid of false book-entries and false reports, have, under cover of rectifiers' stamps, had free and undisturbed passport, there have been almost unlimited transactions in spirits, wholly illicit in production, which have found their way to the same passport through the use of foreign liquor-casks and other disguised packages, and thence, without the slightest recognition of or inconvenience from Government authority, have glided into consumption at the hands of the most reputable dealers in liquors.

"All of these evasions continue to be practised in spite of police regulations and detective work.

"No method which is not a thorough and complete *system* will effectually check this traffic. Such a system demands—

"1. *No stamp must be issued except upon conclusive evidence that the spirits for which the stamp is sought have paid the taxes legally due.*

"2. *The evidence required must be so plain and patent, and so easily produced, that not only Government officials but the trade as well can determine its verity at a glance.*

"3. *This evidence must be beyond the tamperable control of local officers.*

"4. *It must be part and parcel of each and every package of spirits.*

"5. *It must be durable and legible.*

"6. *Some part of it must be easily detached when required by regulation of the Commissioner of Internal Revenue.*

"7. *The key to this evidence must be with the Commissioner of Internal Revenue, who, under such a system, is alone to be held responsible for exact and complete results.*

"To secure the working of precisely such a system, the metallic stamp invented by Edward A. Locke, of Boston, known as the metallic stamp system, is brought to the attention of the Government.

"Its durability is beyond question; the embossed matter cannot be obliterated by any ordinary process—neither by contact in handling, nor by water, nor yet by decay; it may be beaten with a stout hammer upon an anvil and reduced to only one-tenth of its original thickness and yet the words and figures remain legible.

"Its attachment to the package is made in a simple way, and, in any part of the country, it can be affixed to a wooden enclosure as easily as a tack can be driven with a hammer.

"It answers the demand of every requirement above set forth.

"It is the *evidence*, easily detached and presented to the collector whenever, beyond distillery warehouse, by change of character of spirits or change of package, stamps are required.

"Without it spirits are not open to suspicion or question, nor are books to be examined to determine their legitimacy; *they are condemned, and liable to forfeiture.*"

After an extended and thorough examination, occupying months in its course, the Commission unanimously reported in favor of the adoption of the greater part of the series of metallic stamps to be used in conjunction with paper tax-paid and export stamps. A copy of that report is appended hereto in order that the views of the Commission may be exhibited in their entirety.

No action on this report was taken either by the Secretary or the Commissioner, and the series of paper stamps issued under the law of 1868 was continued in service.

Matters thus rested until the famous "whisky raid" of May, 1875, proved the correctness of our reiterated statements concerning the magnitude of the frauds and the various methods of their commission. Hastening to this city, we visited the Secretary of the Treasury and the Commissioner of Internal Revenue, to lay before them our stamp system, and to urge its adoption, which events had so signally demonstrated to be a necessity. We were met at once, however, by the fact that in the revision of the statutes by Congress the restricting clause of section 101 of the law of 1868, which had been repealed by the law of 1872, (the fact of its repeal being recognized by the Department in its omission from the laws as set forth in their compilation by the commission appointed under authority of Congress,) had been re-enacted into law, thus depriving the Secretary and the Commissioner of the authority to change the material of which the stamps should be composed. Under such a state of facts it was deemed advisable to ascertain whether or not it was the intention of Congress to re-enact the repealed clause, or whether it had been re-enacted through oversight, before attempting to examine into the

merits of the metallic stamp system. Accordingly Commissioner Pratt called attention to the matter in his annual report, and the Ways and Means Committee, in the Internal Revenue bill reported by them last session, embodied therein a section restoring to the Secretary and Commissioner the power of change.

Meanwhile, experience having exhibited the defects of the paper stamp and the system under which it was used, some improvement in both was absolutely necessary *at once* in order to reach even an approximate collection of the revenue from spirits. To obtain this end *tax-paid and rectifiers' stamps, with removable centres*, were placed in use, with the requirement that upon the issue of rectifiers' or wholesale dealers' stamps in their stead, these removable centres should be cut out and returned with the gaugers' returns, which should be immediately checked up. Such stamps were and are infringements on the patented stamp with a removable centre invented by Mr. Locke, and submitted by us in 1869, of which fact the Department and Bureau have been formally notified, and the checking up of the gaugers' returns has been from the beginning a feature of our system.

Having thus shown that as early as 1866 we brought to the attention of the Ways and Means Committee a stamp for distilled spirits; (and no other device for that purpose being known or heard of we regarded our proposition of a stamp to denote the payment of the tax on distilled spirits as the primary cause of the adoption of the paper stamp in 1868;) that realizing the inefficiency of the paper stamp issued under that law we hastened to devise and present to the office of Internal Revenue the stamps above referred to; that we have repeatedly pointed out the defects of the paper stamps, the magnitude of the frauds, and the manner in which they were committed; that under the pressure of events the Bureau devised a modification of the paper stamp, and adopted two of the steps which we had always regarded as important to the accomplishment of our system, viz., the requirement that a portion of the tax-paid or rectifier's stamp should be returned by the rectifier or dealer precedent to the issue of rectifiers' or wholesale dealers' stamps, and the checking up of the gauger's reports therewith, we think that, in view of these facts, the persistency with which we have urged the system as a whole, and the evidence which the events of the last two years have furnished demonstrating the necessity for the adoption of the complete system, we are warranted in coming before you at the present time with our perfected devices.

The metallic stamp system will secure to the Government the tax on the production of distilled spirits by virtue of the simple check it will establish upon the gauger, inasmuch as where it is used, under proper regulations of the Commissioner of Internal Revenue, no collector can be permitted to issue a single stamp to a rectifier or dealer without having in his own possession the evidence of the payment of the tax on the spirits for which stamps are desired, and no gauger can get stamps except with the collector's consent.

Next, after the contents of the packages have been removed the transmission of the stamps and half stamps to the Commissioner of Internal Revenue places in his possession the evidence of all operations that transpire in the movement of spirits.

Kinds and Series of Stamps, etc.

Under this system the stamps used would consist of the following kinds and series:

Distillery warehouse, tax-paid, and export stamps.

Series	A,	covering from	20	to	59	gallons.
"	B,	" "	60	"	99	"
"	C,	" "	100	"	139	"
"	D,	" "	140	"	179	"

Rectifiers' and wholesale liquor-dealers' stamps.

Series	A,	covering from	5	to	44	gallons.
"	B,	" "	45	"	84	"
"	C,	" "	85	"	124	"
"	D,	" "	125	"	164	"

All stamps would be charged to collectors, upon issue to them by the Bureau, in the same manner as at present, *i. e.*, the tax-paid at 90 cents per gallon for the highest number of gallons capable of being represented by the stamp; the distillery warehouse, rectifiers', wholesale liquor dealers', and export stamps at 10 cents each.

Upon receipt of gauger's reports, with coupons, etc., the proper entries of issue and use of stamps by collectors could be made, and those officers charged and credited accordingly.

We present herewith Exhibits Nos. 1, 2, 3, 4, 5, and 6, showing each stamp as it would appear in actual use, as each may be successively placed upon and detached from a package of spirits.

Distillery Warehouse Stamp.

Exhibit No. 1 shows the distillery warehouse stamp affixed to a package of spirits, with the coupon of the same.

The operation of this stamp is as follows: When spirits are transferred from a receiving cistern to a cask for storage in distillery warehouse they must be gauged and the usual marks placed upon the package. The gauger must then cut from a distillery warehouse stamp the numeral denoting the number of taxable gallons in the cask, and affix that numeral to the coupon of the stamp in the space provided therefor. The coupon must then be detached from the stamp, and the stamp affixed with tacks to the cask.

Upon the conclusion of his work the gauger must imprint upon each coupon his name and the number of the district in which he is located, and transmit the coupons, with his report, to the collector of the district, forwarding at the same time a duplicate of that repor the Commissioner of Internal Revenue. All gaugers' reports must show, in addition to the *indicia* now required by regulation, the series and numbers of the stamps issued as well as of those taken up, when such is the case.

Upon receipt of the gauger's report with coupons the collector must examine and compare the coupons with the report, charge against his account of each stamp the quantity of gallons represented by the coupon, and, after approving the gauger's report, forward it with the coupons to the Commissioner of Internal Revenue.

Tax-paid Stamp.

Exhibit No. 2 shows the tax-paid stamp when affixed to the cask, the coupon of the same, and the distillery warehouse stamp in lieu of which the tax-paid stamp was issued.

When a distiller, wishing to pay tax upon spirits, withdraw them from the distillery warehouse, and place them upon the market, makes the proper application to the collector, accompanied by the required withdrawal entry, the collector must, after examination of the distillery warehouse stamp account, and ascertaining that the distiller's account of such stamps on the casks to be removed agrees with his books, prepare the necessary number of tax-paid stamps by imprinting thereon, in the spaces provided for that purpose, the number and designation of his district and the date on which the stamps are issued. He must then cut from each the numeral denoting the number of tax-paid gallons of spirits in the cask to which the stamp is to be affixed, and fasten that numeral in its proper place in the coupon. The stamps must then be delivered to the gauger, who, after detaching from each its coupon, takes up from the cask the distillery warehouse stamp and affixes in its stead the tax-paid stamp showing a like number of gallons. This must be done in the presence of the storekeeper of the warehouse. He must then make up his return, which, after being certified to by the storekeeper, he must transmit to the Commissioner of Internal Revenue with the distillery warehouse stamps taken up and the coupons of the tax-paid stamps affixed in lieu thereof. At the same time a duplicate of the report must be forwarded to the collector of the district.

Rectifier's Stamp.

Exhibit No. 3 shows the rectifier's stamp when affixed to the cask, the coupon of the same, and the tax-paid stamp in lieu of which the rectifier's stamp was issued.

Upon the dumping of tax-paid spirits for rectification, the gauger must detach the tax-paid stamps from the empty packages, and, after cutting each stamp in two along the perforated line, forward to the Commissioner of Internal Revenue, with his dumping report, the halves from which the numeral denoting the number of gallons has not been cut. The halves from which the numeral has been cut must be transmitted by him to the collector with a duplicate of the dumping report.

As the spirits pass through the rectifying process, and are placed in casks, they must be gauged by the gauger, who must then affix to the head of each cask a rectifier's stamp, denoting the quantity of rectified spirits therein. The coupon of the same, with the numeral cut from the stamp attached in its proper place, must then be transmitted with his report to the Commissioner of Internal Revenue, duplicate of the report being at the same time forwarded to the collector.

The dumping notice given by the rectifier to the collector, and the dumping report transmitted by the gauger to the collector, must be compared by him with the half stamps returned by the gauger with

his dumping report, and all be retained together. As the gauger's reports of rectified spirits produced from the lot are received, they in turn must be compared and checked up until the rectification of the entire lot of spirits is completed, and the final report of the gauger is received. If then all are found to agree, after the proper deduction for loss by rectification is made, the half stamps must be transmitted by the collector to the Commissioner of Internal Revenue, with report showing from whom received, and the series, numbers, and quantities called for on the rectifiers' stamps issued in their stead.

Wholesale Liquor-Dealer's Stamp.

Exhibit No. 4 shows the wholesale liquor-dealer's stamp when affixed to the cask, the coupon of the same, and the tax-paid or rectifier's stamp, taken up on issue of the wholesale liquor-dealer's stamp.

When the contents of a package of spirits are transferred by a wholesale dealer to smaller packages, the gauger, after gauging and marking such packages, must affix thereto wholesale liquor-dealers' stamps denoting their contents, and then take up the tax-paid or rectifier's stamp from the emptied package. The half of this stamp from which the numeral has not been cut he must transmit to the Commissioner of Internal Revenue, with his report and the coupons of the wholesale liquor-dealer's stamps issued. The half from which the numeral is cut he must forward to the collector, with duplicate of the report.

After verifying the gauger's work, the collector must daily transmit to the Commissioner of Internal Revenue all such half-stamps received from gangers, with report showing from whom received, (both dealer and gauger,) series, number, and quantity called for by stamps, and series, number, and quantity called for by the wholesale dealer's stamps issued in their stead.

In case a wholesale liquor-dealer* shall open a package of spirits for retail sales, he must detach the half of the stamp from which the numeral is not cut, retaining said half until called for by a deputy-collector or revenue officer designated for that purpose. The half remaining on the barrel must not be removed therefrom so long as any spirits remain therein; but when the cask is emptied of its contents, it must then be removed and held until called for by the proper officer.

On opening a cask of spirits for retail sales, the wholesale dealer must enter in a book kept for that purpose the number of the cask, the series and number of the stamp, quantity of wine and proof gallons, and the date when the cask was opened, and must keep an account of the several items of sales of spirits therefrom.

When a wholesale dealer opens a cask of spirits for retail sales, and thereafter fills from its contents a package containing more than five gallons, (or of a size required by law to bear a stamp,) the gauger must, before affixing the stamp, gauge the contents of the package, also that of the package from which the spirits were drawn, and exam-

* Being also a retail dealer.

ine the dealer's account of sales from the original package, to determine that they all together do not call for more gallons than are represented by the half stamp and marks upon the cask. If found correct, he must then prepare and affix a wholesale liquor-dealer's stamp to the package filled from the cask, returning the coupon thereof, with his report, to the Commissioner of Internal Revenue. This report must show all the facts in the case, and a duplicate of it must be transmitted to the collector.

Half Stamp on Package open for Retail Sales.

Exhibit No. 5 shows a tax-paid, rectifier's, or wholesale liquor-dealer's stamp upon a cask of spirits open for retail sales therefrom.

When a retail liquor-dealer opens a package of spirits for sale, he must detach the half of the stamp from which the numeral has not been cut and retain it until called for by the proper revenue officer, and when the cask is emptied, must detach the remaining half of the stamp, retaining it also until called for by the proper officer.

When the first half of a stamp taken from a cask opened for retail sales is delivered to the collector by the revenue officer taking it up, it must be entered upon a record kept for that purpose, and, after being cancelled, must be transmitted by the collector to the Commissioner of Internal Revenue, with report showing its series, number, etc., the name of the dealer from whom taken up, quantity of spirits called for, and date when taken up.

When the second half is taken up, upon the emptying of the package, it must be treated in like manner.

Export Stamp.

Exhibit No. 6 shows an export stamp on a cask of spirits in transit for export in bond, the coupon of the same, and the distillery warehouse stamp taken up on issue of the export stamp; a tax-paid stamp which may be affixed should shipper desire to pay tax on the spirits, remove package from bond before shipment, and sell in domestic market, with conpon of tax-paid stamp, and export stamp taken upon issue of tax-paid stamp; and an export stamp affixed to a package of spirits in transit for export on drawback, the coupon of the same, and the tax-paid stamp taken up on issue of export stamp.

When spirits are to be removed from a distillery warehouse for export in bond, the collector, upon reception of the proper application and bond, and after verifying the report of distillery warehouse stamps on the packages with his account of the same, must prepare the necessary export stamps by imprinting on each the number and designation of his district, and date of issue; by cutting from each the numeral denoting the number of gallons of spirits in the package to which it is to be affixed, and by placing the numeral of each in its proper place in the conpon. They are then to be delivered to the gauger, who, after detaching the coupons, must affix each stamp to the proper package, and take up the distillery warehouse stamps in the presence of the storekeeper.

The gauger must then, after stamping his name, etc., on each coupon, make up his report, which, after being certified to by the storekeeper, he must transmit to the Commissioner of Internal Revenue, with the distillery warehouse stamps taken up and the conpons of the export stamps issued. He must also forward duplicate of such report to the collector of the district.

Should the owner of such spirits, upon their arrival at the custom-house at the port of shipment, desire, instead of exporting them, to pay tax upon them, withdraw them from bond, and place them upon the domestic market, he must make application to the collector of customs for that purpose. Upon the transmission of such application by the collector of customs to the collector of internal revenue designated to superintend exports of spirits from that port, the collector of internal revenue must, before receiving the tax and issuing the tax-paid stamps thereon, verify the same by requiring a gauger* to detach from each package the half of the export stamp from which the numeral has been cut, and return the same to him, after which he must receive the tax, and prepare the tax-paid stamps for the packages in the same manner as if the spirits were to be withdrawn from distillery warehouse.

These stamps he must deliver to the gauger,* who, after detaching the coupons, must affix the stamps to the packages, and take up the remaining halves of the export stamps. These half stamps and the coupons of the tax-paid stamps the gauger must immediately transmit to the Commissioner of Internal Revenue, with a report, forwarding at the same time a duplicate of that report to the collector.

Immediately on issue of the tax-paid stamps the collector must transmit the halves of the export stamps on which the tax-paid stamps were issued to the Commissioner of Internal Revenue, with report. Upon receipt of both parts of the export stamps at the Bureau of Internal Revenue, and after verification of accounts, the export bonds given for the spirits may be cancelled, and all parties notified of that fact.

If tax-paid spirits are to be shipped on drawback, the collector must, upon receipt of proper application, etc., direct a gauger to gauge and inspect the same, and detach from each package the half of the stamp from which the numeral is cut, returning such halves, with report, to the collector, and transmitting duplicate of that report to the Commissioner of Internal Revenue. On receipt of the half stamps, with report, the collector must prepare export stamps, denoting the quantity of gallons of spirits actually in each package, *not, however, to exceed the quantity called for by the half stamp taken up*, and deliver the same to the gauger, who will proceed to detach the coupon, affix the export stamps, and take up the remaining half stamps on the packages. These half stamps and coupons the gauger must then transmit to the Commissioner of Internal Revenue, with his report, forwarding at same time a duplicate of such report to the collector.

Immediately on the issue of export stamps under such circum-

* Or other officer whom he may designate for that purpose.

stances, the collector must transmit to the Commissioner of Internal Revenue the half stamps on which the export stamps were issued, with proper report.

In order to prevent the re-use of export stamps, the United States consul, or other official whose duty it now is to certify to the reception of spirits at port of destination, should be required to receive and transmit with such certificate the export stamps affixed to the casks. In the absence of such stamps the certificate to be valueless for cancellation of export bonds.

Import Stamp.

Although this question has been fully discussed heretofore, we think it proper to again briefly call your attention to it here.

There can be no doubt but that for many years past casks in which foreign liquors have been imported, as well as imitations of such casks, have afforded a channel through which great quantities of illicit spirits have found their way to market and consumption undisturbed by the most rigid official scrutiny. Such being the case, it is patent that no system for the collection of the tax on domestic spirits can ever be made perfect, or successfully collect that tax, until there shall be affixed to packages of foreign spirits on passing out of bond a stamp denoting the payment of the duties thereon, and thenceforward such spirits be subject to the operation of the laws regarding domestic spirits.

Upon the affixing of an import stamp to a package of foreign spirits on withdrawal from bond, such stamp to be affixed under regulations prescribed by the Secretary of the Treasury and Commissioner of Internal Revenue, the spirits are to be subject to the operation of the metallic stamp system. If the package is broken into smaller packages requiring stamps, the import stamp must be removed from the emptied package and wholesale dealers' stamps affixed to the filled packages; and if opened for sale at retail, half of the stamp must be taken up, the remaining half to be taken up on emptying of package.

Beyond the import stamp, which specially indicates not only that the spirits are what they purport to be—foreign—but have paid the duty, no special stamps to indicate their character are needed, the ordinary wholesale dealer's stamp being affixed to packages filled by importer or dealer.

It is apparent that the application of the metallic stamp system to foreign spirits effectually prevents the re-use of the emptied casks as vehicles for the safe transportation and disposition of illicit domestic spirits, at the same time working no hardship to the honest importer or dealer in foreign spirits, the genuineness of whose goods is thereby officially proclaimed, while the dishonest dealer cannot complain at being placed on the same footing with the honest dealers in domestic as well as imported spirits.

Cancellation of Stamps.

All whole or half stamps taken up and transmitted by a collector

or gauger to the Commissioner of Internal Revenue must first be cancelled by marking upon their back or reverse side an impression of the seal of the collector or gauger.

Practical Operation of Metallic Stamp System.

In the practical operation of the system the return of the coupon of the distillery warehouse stamp gives the primary item of charge against the collector; the return of the distillery warehouse stamp with the coupon of the tax-paid stamp gives the second item of charge against the collector, and is an immediate check upon him, as well as a verification of the work of the gauger; the return of half the tax-paid stamp by the gauger with his dumping report is the initial check upon the rectifier, which is completed on the transmission by the gauger of the coupons of the rectifiers' stamps as issued, and by the return by the collector of the remaining halves of the tax-paid stamps when all the spirits dumped in that lot are rectified.

This process is carried through the entire series of stamps. As one is issued the previous issue must be taken up and transmitted to the Internal Revenue Bureau, thus insuring an immediate verification of accounts, and instant as well as constant check upon revenue officials, distillers, and handlers of spirits. The only case wherein a stamp may be issued without the return of a corresponding one at once (when a wholesale dealer fills packages containing more than five gallons from a package on tap for sale at retail) is provided for by requiring a thorough examination by the gauger, and full report of the facts, capable of being verified or disproved the moment such report is received by the Commissioner or collector. The coupons, stamps, and half-stamps, as they come into the Bureau, can be immediately compared, checked up, and entered, whilst the collector as well as the Commissioner can, from his records, readily keep up and compel the prompt return of the half-stamp from packages of spirits sold at retail.

The system, even as thus briefly set forth, is seen to be a series of checks—checks against fraud, checks against error, checks against Bureau accounts, checks against collectors and gaugers, and checks against distillers, rectifiers, and dealers in spirits.

We quote in this connection what we said to the Hon. Commissioner of Internal Revenue in 1869 in printed brief submitted to him at that time:

"It follows that should a disc be returned to the office of Internal Revenue which did not agree with the original debit of stamps to the collector to whom the stamps were issued, the error, fraud, or duplication is at once detected, and, by the aid of the telegraph, is brought home to the delinquent without delay.

"This makes so perfect a system of check, that not to adopt so simple, comparatively inexpensive, and effective a device would be unpardonable on the part of any business firm or individual who had need for it.

"Can the Government afford to do less in such a matter than the ordinary business man?"

Durability and Inviolability of the Metallic Stamp.

The commission appointed by Mr. Delano in 1869 to inquire into

the defects of the spirit stamp, summarized its deficiencies in this respect in language which we transcribe from their report:

"The statements before the Commission show that large numbers of the tax-paid stamps are removed by chafing, dampness, and various accidents; and it was plausibly alleged that still larger numbers are skilfully transferred from one cask to another, to stand guard over spirits which have paid no tax whatever.

"It seemed to the Commission that the tax-paid stamp was subject to some accidents, which would be avoided if it could be somewhat diminished in size; and that as well by its size as by its exposed position on the surface of the cask, it is liable to be soiled, torn, defaced, and rubbed off; and that by exposure to acids, or gases, or dampness, during storage, the writing is occasionally obliterated.

"Then, it is easy to see that these and similar defacements can be imitated by design, and may awaken suspicions of fraud where none exist, and allay suspicions where gross criminality is involved."

This statement is as forcible and true to-day as when written seven years ago, and we think that if we only proposed the use of metal instead of paper, without attempting to present a system insuring the collection of the revenue from spirits, the proposition should receive careful consideration, and, unless its cost were an insuperable bar to its use, the metallic stamp should be adopted. No other class of taxpayers bear such a proportion of the burden of taxation or have the right to demand, to the utmost degree, the absolute and unmistakable certificate of governmental protection for their goods, if free from taint, yet none have such flimsy, undistinguishable, alterable, or perishable passports. The dealer in fine liquors, which must remain in stock for years before being disposed of, knows full well that before the spirits have "aged" sufficiently to be marketable, the stamps will in all probability become utterly undecipherable, if not totally destroyed, either through natural or accidental causes, thus leaving his stock as well as his reputation at the mercy of revenue officials.

These defects in the paper stamp are fully remedied in the metallic stamp. Its durability is beyond question. The action of time, water, heat, (unless carried to the degree at which the metal would melt, in which event the spirits would be first destroyed,) acids, gases, etc., have no effect upon it; accident can only slightly injure it, and its destruction can only be consummated by wilful, deliberate attempt.

So long as it remains affixed to a package, it is the unmistakable and unquestionable guardian of the contents of that package.

It is also unalterable in its character. Only one numeral can be cut from a stamp, and the missing numeral is the index to the contents of the package. Once cut from the stamp and transmitted to the Internal Revenue Bureau, no tampering with the stamp can be successful. Detection is certain, either from the altered and improper appearance of the stamp itself, whilst undergoing the scrutiny of revenue officials and the trade in the course of business, or on its transmission to the Bureau.

Impossibility of re-use of the Metallic Stamp.

In our judgment, in providing for the ultimate delivery to revenue officers and return to the Commissioner of Internal Revenue of *all the stamps* employed under our system, we have provided a complete check upon all attempts at more than one use of one and the same

stamp. In this connection, we regard the continued weakness of the modified paper stamp to exist in its want of durability; liability to removal as a whole stamp, (after packages have been emptied of their contents,) and continued use by rectifiers and dealers without calling in the aid of the gauger. It cannot be taken up and returned to the Commissioner, and, again, it cannot be made to serve as a protection to opened casks for retail or waste consumption without constant danger of its use again and again for illicit transit of spirits. Under our system, however, by the division of the stamp, the one-half returned to the collector is made an effective check upon retail operations; *the half remaining on the cask shows at once the fact that the package has been opened for retail sales or waste consumption, and does not permit the package with the half stamp to be in transit anywhere.*

Counterfeiting.

Your Commission placed some stress upon the present requirement of law that the signatures of revenue officers should be upon the stamps, and, taken in connection with the fact that an engraved stamp is also required, they urged that the danger of counterfeiting was thereby greatly lessened.

It seems to us that as the signatures of collectors, gaugers, and storekeepers, not often known at a distance of a mile from the office of the collector, as they appear on most of the paper stamps now found on casks of spirits—particularly after the addition of the waved cancelling lines and the smearing varnish to the face of the stamp—cannot be read by one person in a thousand, as a general rule, (and, if they could, have no value in determining the genuineness of the stamp or the credibility of the goods covered by it, so far as the general public is concerned,) no heed is given to the name of any officer, or to the fact that the stamp is engraved, in passing upon the legitimacy of the present stamp.

Counterfeiting identifying marks to protect articles of value would seem to be the last thing that any sensible dealer in merchandise coming under the scrutiny of revenue officials would ever attempt, since he would publish to the world his own fraud, leaving scarcely a hope of escape from its consequences.

In addition are two other safeguards—first, that counterfeiting the stamps would not pay. The counterfeiter must first prepare his dies and numbering machines at great cost; then procure the peculiar quality of metal, which is only produced by four or five companies in this country, and then, after having successfully imitated the stamps, must find a customer for them. He cannot pass them off in the purchase of the necessaries or in the enjoyment of the luxuries of life, nor can he foist them upon any one when engaged in dissipation. His customers must of necessity be few and far between, as he must know a distiller, rectifier, dealer, or Government official to be dishonest before he can approach him with his offers. The risk of detection, the certainty of severe punishment if detected, and the comparatively few persons who could be persuaded to use his fraudulent stamps,

all combine to render it extremely improbable that any one would ever undertake to manufacture counterfeit metallic stamps.

But joined to these reasons is the fact of instant detection the moment the stamp is taken up and returned to the Internal Revenue Bureau. No counterfeiter would simulate a coin or greenback if he knew that the person upon whom he passed it would be required to keep a record showing from whom he received it, and could only dispose of it by passing it into the Treasury, where its character would be immediately detected, and the punishment indicated by the law inflicted upon its maker and utterer; nor could any distiller or dealer in spirits be induced to use a counterfeit metallic stamp, as he would know that its very next move must be to go to the Bureau, where its fraudulency would be at once discovered, and the officers of the law be unerringly directed to him.

Increased Cost of Metallic over Paper Stamps.

At our meeting with your Commission it was remarked that the cost of the metallic stamps might militate against their adoption, it being estimated that, taking last year's issue of stamps as a basis for calculation, the increased cost of metallic over paper stamps would be $200,000 per annum. This estimate was also based upon the sum named by us as the *maximum* cost per stamp.

While this may at first sight appear a plausible objection to the adoption of metallic stamps, a little consideration will lead to the conviction that it has no weight whatever. The element of cost—unless, indeed, it would detract from the net revenue—is not a matter for consideration in endeavoring to procure a stamp and system that will collect all of the revenue possible to be derived from distilled spirits. The Government now receives ten cents for each stamp affixed to packages of spirits, except the tax-paid stamp, and that sum is at least double what would have to be paid by it for metallic stamps. The fact that it now pays for the paper stamps only a tithe of what it receives for them is not a very strong argument in favor of their retention, if, as we claim, they fail to collect the revenue to the fullest possible extent, protect the Government from fraud or the tax-payer from suspicion.

We say that the present stamp and system utterly fails in this respect. Since the adoption of the modified paper stamp the claim has been set up for it time and again that under it fraud is detected and the revenue collected as nearly as possible, but the facts show the contrary. It is true that frauds have been detected—but how? Certainly not by any operation of the paper stamp in a single instance, from its introduction in 1868 down to the present time.

From the day when the great whisky raid was made until now, the papers have teemed with accounts of seizures of illicit distilleries, and the records of your office doubtless bear out to a great degree the correctness of those statements, but the paper stamp had nothing to do with such seizures. They were owing entirely to the increased vigilance of revenue officers.

To the contrary, the paper stamp is now, and ever has been, the cover to fraud. Were this not the case, why should there be illicit distilleries discovered running at full capacity? Were there no *protected outlet* to these illicitly distilled spirits, would they be manufactured? Take the latest case of seizure. In the heart of the city of New York, almost under the shadow of the Internal Revenue Bureau, there was seized on December 2—only five days ago—a distillery in full operation, capable of producing from eight hundred to a thousand gallons of illicit spirits daily, and fifty barrels of spirits in addition were found on the premises. It cannot be denied that this distillery would not have been in operation unless there were a channel through which the illicit production could be disposed of undetected and unsuspected.

And this very case shows the want of force of the objection to the metallic stamp because of its cost. At the lowest calculation, such an illicit distillery would defraud the Government of at least $100,000 tax per annum, *half the increased cost of the metallic stamp, which we claim would have prevented that illicit distillation, by closing the avenues for its disposal, and would have collected that amount upon the honest production of a like quantity of spirits.* What is true of this case is equally true of all others. If the detected frauds since July 1, 1876, already amount to the difference between the cost of paper and metallic stamps, as they doubtless do, what must the undetected frauds have amounted to?

As every day demonstrates the fact that the present paper stamp fails to prevent fraud, or collect the revenue to its fullest extent, we do not think any reasonable objection can be made to the adoption of the metallic stamp, which we have demonstrated can and will do this, and, we believe, will increase the revenue from spirits (over and above any natural increase in such revenue) an amount exceeding its cost from ten to twenty-fold.

Out-door Force.

It has been objected that the adoption of the metallic stamp and system would entail upon the Internal Revenue Bureau an increase in the force of revenue officials, in order that the taking up of the half stamps on retail packages, etc., might be promptly and thoroughly done, and that this increase would necessarily add considerable to the expense of the collection of this tax.

In the reduction of the Internal Revenue force by Congress it seems apparent that due judgment has not been exercised, and that for the faithful execution of the law as it now stands the Commissioner of Internal Revenue should be supplied with such further aid as the experience of the last year demonstrates to be a necessity. There can, therefore, be no reasonable objection to the employment of an intelligent corps of revenue officials, for the accomplishment to the remotest detail of all that the law would or should require, and if any loop-holes now exist for the practices of fraud and evasion of the tax on spirits which could be prevented by an increase of force,

the duty of the Commissioner is undoubtedly plain, and he could do no less than demand such increase.

Should it appear to the Commissioner that the system which we urge would accomplish the result sought to be attained, the cost of an increased force should not stand in the way of its adoption, since the duty of the Government is twofold—the complete collection of the revenue, and protection to all honest producers and dealers. Where so large a revenue is obtained from a single object of taxation, the latter duty is imperative, to the end that trade shall not be injured by the production of spirits illicit and fraudulent in character.

Checking up in the Bureau.

With regard either to the manner of keeping the books in the Bureau, or of the clerical force adequate to perform promptly and correctly the necessary labor under the metallic stamp and system, we believe your Commission have already expressed the opinion that the requisite records could be so simple and comparatively few that little, if any, addition to the present clerical force of the office would be needed.

Failure of successive steps taken since 1866 to provide means for thoroughly collecting the Tax.

Since 1866, we have steadily advocated the adoption of the metallic stamp system for the collection of the tax on distilled spirits. Progress has been made in the method of collecting the tax since that date.

First, the law requiring the assessment of distilleries on their capacity and the use of stamps to denote the payment of the tax; next, a change in the stamp first adopted; then, officials were held to a more rigid accountability; next, another modification of the stamps, and finally the institution of a partial check upon the misuse of the stamps by gangers.

These steps, though progressive, have failed to effect more than a partial remedy, because the root of the evil, the paper stamp, was not eradicated, and until it is all efforts to perfect a system for the collection of the tax will be vain and delusive. *Again, we repeat, no system for the collection of the tax on distilled spirits can be carried to a perfect conclusion without the use of a metallic stamp.*

We have urged upon nearly every successive Commissioner of Internal Revenue since 1866 the merits of our stamp system, and have seen, step by step, parts of the plan we proposed adopted under the pressure of necessity, and applied, so far as possible, to the paper stamp. We have witnessed these successive attempts to improve the present system, with no doubt as to the final result, believing then, and still believing, that all attempts to make the paper stamp accomplish the work would prove abortive, and that, in the end, necessity, which has heretofore compelled the improvement of the paper stamp, will compel the adoption of the metallic stamp system.

General Proposition Concerning the Metallic Stamp System.

Our proposition regarding the metallic stamp system is simply this: There shall be no abolition of any feature of the present mode of transacting the business of collecting the tax, nor the relinquishment of a single regulation which now affords any protection either to the Treasury or the honest tax-payer; the same daily reports of gangers, storekeepers, and collectors shall be retained, *and, in addition, the verification thereof shall be transmitted in the form of coupons, stamps, and half-stamps direct to the Commissioner of Internal Revenue.*

No plan more simple, none so cheap in view of the amount of values protected and the security given both to Government and the taxpayer, was ever devised. It works no change in the routine of present service, but adapts itself to precisely the rules and regulations extant, and, in the event of its adoption, we guarantee its complete and perfect working with the collection of ninety-five per centum of all the tax on spirits.

Conclusion.

In conclusion, we beg leave to express to you our thanks for the courteous manner with which we were received by you, the interest you displayed in our statements and explanations, and your evident desire and intention to thoroughly comprehend the merits and demerits of the metallic stamp system.

We desire also to express the same feelings toward the gentlemen composing the Commission for the care they bestowed in the examination of the system during our interviews with them. In this, however, they are not singular, for we have pleasure in saying that the same treatment has always been extended to us by the members of the various commissions before whom we have heretofore appeared to advocate the merits of our system.

Very respectfully, your obedient servants,

EDWARD A. LOCKE,
D. P. SOUTHWORTH.

APPENDIX.

Copy of report of Commission designated by Secretary Boutwell to examine the Metallic Stamp System.

TREASURY DEPARTMENT,
OFFICE INTERNAL REVENUE, STAMP COMMISSION,
February 3, 1873.

SIR: The undersigned having been constituted a commission for the examination of instruments and other means for attaching, protecting, and cancelling stamps for tobacco, snuff, cigars, distilled spirits, and fermented liquors by your letter of July 19, 1872, have to report that we have received and carefully examined a number of such instruments and devices, exhibiting great ingenuity on the part of their inventors.

The practice sought to be prevented by these inventions is principally that of the re-use of stamps.

Such instruments as are of value in this regard have been found objectionable in other respects. The objections seem to more than counterbalance the merits. Accordingly, we have not been able up to the present time, nor are we now able, to report to your favorable notice any such instrument or device.

The regret with which this admission is made is much lessened, however, by the circumstance that in pursuance of a farther extension of our duties, by which you have authorized us to examine propositions involving a change in stamps, we have had the pleasure of inspecting certain metal stamps, submitted by Mr. E. A. Locke, of Boston, and designed to be used on packages of distilled spirits.

These metal stamps are more durable and more legible than paper stamps, and with a system of checks and accountability which can be used with them, but which is not applicable to the paper stamp, your commission are convinced that much can be accomplished in preventing frauds now practised at rectifying establishments. IF ONE-HALF OF ONE PER CENT. COULD THUS BE ADDED TO THE PRESENT REVENUE FROM SPIRITS, THE INCREASED EXPENSE ATTENDING THE USE OF THESE STAMPS WOULD BE FULLY COVERED.

Mr. Locke has submitted samples of metallic stamps, designed to take the place of each of the different paper stamps now in use. But it is found upon examination that the paper tax-paid and export stamps may be used, and at the same time the benefits of his system be essentially secured.

We would, therefore, recommend the adoption and use, without holders, of the following varieties of the Locke metallic stamp, viz: the distillery warehouse stamp, the rectifier's stamp, and the wholesale liquor-dealer's stamp, to be used with the paper tax-paid stamp and the paper export stamp now in use.

Enclosed please find the following papers relating to this subject:

A.—Proposition of Mr. Locke.

B.—System adapted to use of his stamps, submitted by Mr. Locke.

C.—Memoranda showing relative merits of paper and metallic stamps, by a member of this commission.

D.—System adapted to the use of three metallic and two paper stamps, proposed by a member of this commission.

We hasten to say that the enclosed papers do not set forth any system fully decided upon by this commission, but are merely intended to show, aside from the price of the article submitted, some of the methods by which the metallic stamps may be used in securing an increased revenue from distilled spirits.

To perfect a plan which will secure the best results will involve much time and labor. We have thought it advisable, therefore, to await your instructions before proceeding further in the consideration of the matter.

We also enclose one of the round stamps, merely as a specimen of the work. The style of stamp illustrated by Mr. Locke in his proposed system (see paper marked B) is the one which has our approval.

This report is not submitted as final in regard to stamp-cancelling instruments, as we have other matters relating thereto under consideration.

We would respectfully call your attention to the desirableness of having the law so amended as to require stamps to be affixed to importers' packages of distilled spirits, which stamps may be given up to the internal revenue gauger when the packages are emptied on the premises of a rectifier or wholesale liquor-dealer. This would prevent the use of foreign liquor casks to cover illicit spirits.

In conclusion, your commission would state that this subject has been considered with reference to its merits as a system, without regard to the penal provisions of the law by which such a system may be enforced.

(Signed) H. C. ROGERS,
C. A. BATES,
JOS. L. HARLEY.

Hon. GEO. S. BOUTWELL,
Secretary of the Treasury.

MSH 28139

END OF
TITLE